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FEASIBILITY AND COST EFFECTIVENESS STUDY OF DEVELOPING A STATEWIDE ELECTRONIC BENEFIT TRANSFER (EBT) SYSTEM

Over the last several years the Department of Transitional Assistance (DTA), in association with the Office of the State Comptroller and the State Treasurer's Office, have been reviewing alternative methods of delivering transitional assistance benefits following very closely the federal activity, as well as various state pilot projects surrounding EBT.

HISTORICAL OVERVIEW

There have been generic problems with direct delivery of cash assistance and Food Stamp benefits. These problems --- vulnerability to benefit loss and abuse, escalating caseloads that increased both state and federal administrative costs, and the social stigma associated with visible receipt of public assistance and Food Stamp benefits - were a compelling incentive to find better and less expensive ways to deliver these services.

Prompted and encouraged by the United States Department of Agriculture (USDA) and the Department of Health and Human Services, Administration for Children and Families (HHS-ACF) explorations into alternative benefit issuance methods and systems, Massachusetts began to experiment with innovative service and benefit delivery systems, over a decade ago.

In 1978, the Department made an EBT presentation to the USDA-FCS Administrator. In 1980, it was a finalist in the Federal Government competition for the awarding of the first EBT demonstration project (eventually awarded to Reading, PA.). In 1984, the Department implemented a mandatory Food Stamp photo identification program. The system included the imprinting of the photo-ID embossed number onto a pre-synthesized area on the rear of the Food Stamp Authorization-To-Participate (ATP). This resulted in a substantial reduction in the incidence of Food Stamp benefit loss and theft.

Massachusetts also addressed some of the more vexing problems that cash assistance recipients were experiencing e.g. the requirement to maintain high account balances at banks to qualify for check-cashing services, and the usurious fees charged by unregulated check-cashing enterprises.

In 1990, the Department in association with the Massachusetts Community Banking Council (MCBC), implemented a program that enabled cash assistance recipients to

transact their checks at over 2,000 bank locations throughout the Commonwealth - without an account and for \$0.50 or less when accompanied by the Food Stamp Photo-ID card. In 1991, again in association with the MCBC, the Department implemented a Direct Deposit Program for cash assistance recipients. With currently over 20,000 families participating, this program is growing and continues to be promoted statewide. In fact, it is the largest public assistance Direct Deposit program in the country.

Despite these innovative and technically advanced forays into alternative benefit issuance, not all the problems have been solved. This is true for the other states and the Federal government as well. To build on its experiences and to attempt to resolve the remaining problems and increase the recipient level of participation, DTA is working to develop a program to distribute cash assistance and Food Stamp benefits using an EBT system.

NEEDS AND PROBLEMS TO BE ADDRESSED

Improving the Delivery and Management of Benefits

The Department currently distributes benefits in the following ways: Direct Deposit (cash assistance), Direct Mail (cash assistance and Food Stamps ATPs), and a limited EBT pilot for EAEDC cash assistance recipients in Brockton, MA. There are problematic disadvantages to these methods that are related to the security of negotiated benefits, lost and stolen benefits, and the lack of bank accounts.

The direct deposit method, although growing, is not always effective for many recipients primarily because they are unbankable (for various reasons cannot open an account) or do not have a bank account, or they do not feel comfortable with the process. Additionally, if the households are eligible for Food Stamps, the ATPs are received through direct mail. Continued education and more experience, plus promotion by the Department and the banking industry, should gradually increase the use and comfort level of this method.

The most incisive problems are related to direct mail, especially, but not limited, to the theft and loss of benefits. A myriad of conditions contribute to these problems. Insecure mail receptacles, changes in mail carriers and their unfamiliarity with the residents in their area, frequent moves by recipients accompanied by change of address delays, are some of the more obvious conditions.

Food Stamp coupons themselves present a security issues for recipients. Although recipient- specific ATPs are mailed by the Department, it must be redeemed for generic Food Stamp coupons. There is no practical or identifiable way to tie Food Stamps

to a specific recipient. The coupons are as negotiable as cash - once lost or stolen the coupons can be exchanged by anybody for food. And, worst of all, once lost or stolen, the coupons are not replaceable - a very severe penalty - to any household.

The administrative effort by the Department to replace lost or stolen cash assistance and Food Stamp benefits is very time consuming (anywhere from 3 to 10 days) and progressively more expensive at a time when administrative resources are limited.

An EBT system is a solution to many of the benefit security and delivery problems described above. This method will allow recipients to draw out cash assistance in as needed installments, rather than exposing the entire benefit at one time. It will also reduce the dangers of loss and theft by eliminating the need to expose extremely negotiable Food Stamp coupons either on a recipient's person or in the home.

Eliminate The Need For Contracted Food Stamp Issuing Agents.

One very expensive and administratively complicated process that EBT would replace is the Food Stamp issuing agent network management process.

The Department currently contracts with over 125 project locations that encompass over 400 issuing points. Banks, department stores, community action programs, and private distribution vendors compose the majority of issuing agents. It's at these locations that recipients exchange ATPs for Food Stamp coupons.

Massachusetts banks are not mandated to issue Food Stamps; and, the banks that voluntarily participate prefer to participate in areas that generate low transaction volumes. This leaves areas with high transaction volumes to non-bank vendors. With the recent bank closings and consolidations in the State, the Department is constantly soliciting local area banks. This process is very time consuming because each local area bank may have only one or two branches.

But the most problematic and potentially costly situation is the Department's experience with non-bank type issuing agents. As a result of the substantial increase in Food Stamp issuance, it has proven to be increasingly difficult for issuing agents to maintain their off-site Food Stamp needs in relation to their insurance coverage. Furthermore, the Department is forced to maintain a larger central Food Stamp inventory and oversee more frequent and costly delivery of Food Stamps to issuing agents to reduce the Department's exposure.

Eliminate The Charges Assessed To Recipients To Transact Their Cash Benefits.

Although DTA has its check cashing program, it is optional to recipients. Recipients often opt to transact their checks at convenient but expensive check cashing locations or some other costly third party medium. EBT would virtually eliminate this condition.

Reduce The Stigma Associated With Receiving Assistance Benefits.

Many recipients, particularly the elderly, fear discrimination, or humiliation and loss of privacy due to the unfortunate but prevalent perception that the public focuses on them. The transaction of Food Stamp benefits can subject an individual to negative and judgmental public reactions. This environment forces some individuals to delay or forego applying for needed benefits, or to travel to a distant community to avoid recognition when they transact their ATPs. EBT would make the receipt and transaction of cash assistance and Food Stamp benefits practically transparent to the public.

Eliminate The Temptation To Barter Or Sell Food Stamps For Cash.

Recipients are occasionally tempted to exchange their Food Stamps for cash or other non-food products. This illegal exchange jeopardizes the receipt of maximum benefits by the household and undermines the objectives of the Food Stamp Program. EBT, with its elimination of the coupons, would drastically reduce or eliminate this practice.

OBJECTIVES OF IMPLEMENTING EBT

The following is a list of specific objectives related to the implementation of an Electronic Benefit Transfer (EBT) system in Massachusetts:

- 1) Provide enhanced access to benefits to all cash assistance and Food Stamp benefit recipients in the State; and, to facilitate the recipients' management of cash assistance and Food Stamp benefits using an electronic benefit transfer medium.
- 2) Eliminate check transaction charges directed at recipients.
- 3) Alleviate stigmas associated with the receipt of assistance benefits to enhance recipients' privacy and dignity.
- 4) Provide opportunity for recipients to enter "mainstream" banking services such as ATMs and point - of- sale (POS) devices, and acquire these services from banks willing to do so.

- 5) Reduce the administrative complexity and escalating cost incurred by food retailers participating in the Food Stamp Program.
- 6) Reduce the illegal sale and bartering of Food Stamp coupons through electronic management reporting systems. Additionally, allows the Department to gather supporting documentation that enables the possible disqualification or termination of a recipient that commits such an act.
- 7) Provide uniform distribution of cash and Food Stamp benefits by establishing a single distribution method for programs administered by the Department.
- 8) Consider adding the capability to assume distribution responsibility for other State and Federal benefit distribution programs such as WIC and clothing allowance grants.
- 9) Extract, collate, summarize and maintain data to satisfy Federal and State reporting and evaluation requirements; establish audit trails and produce and maintain reports that satisfy the administrative and management requirements of all operational entities involved in the project.
- 10) Reduce theft losses and related sanctions associated with present distribution methods/system to effect cost savings.
- 11) Provide adequate security measures and enforcement guidelines to reduce the possibility of fraud.
- 12) Design, test, and have ready alternative distribution methodologies in the event of major electronic system crashes to provide a way for recipients to access their cash assistance and Food Stamp benefits.

CURRENT EBT ACTIVITY

In September 1993, Vice President Gore's Report of the National Performance Review, From Red Tape To Results, called for the rapid development of a nationwide system to deliver government benefits electronically. In November 1993 the Federal EBT Task Force was chartered to meet this challenge. The goal was to make EBT nationwide, delivering multiple benefits to those recipients that cannot be reached through direct deposit.



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The Task Force believed this goal could be achieved by utilizing existing Electronic Fund Transfer (EFT) systems rather than incurring the cost of developing a new proprietary system. In the commercial sector, most of this delivery system already exists--- that is, a safe and secure method of delivering funds electronically from financial institutions to individuals through ATMs and POS terminals using a magnetic stripe access card.

Although the Department , the Comptroller, and the State Treasurer's Office were following various pilots throughout the country (e.g. Maryland, Ohio, Minnesota), each felt strongly that the Commonwealth would benefit greatly through its own EBT pilot. In June 1994, the three agencies entered into an agreement with Shawmut Bank to perform a limited pilot out of the DTA office in Brockton. The EAEDC program was chosen over AFDC to avoid the lengthy process of seeking and obtaining federal approval for the pilot. In October 1994, the DTA started the pilot and currently we have 526 EAEDC clients on EBT. The pilot has been very successful from the recipient standpoint---they feel it is a safe convenient alternative and have requested that we extend it to Food Stamps. The DTA, Comptroller, and Treasurer feel that we have gained valuable experience regarding EBT by dealing with training and procedural issues both at the local office and with recipients.

In the fall and winter of 1994, the Northeast States (New York and New England) started to discuss the possibility of forming a coalition when implementing EBT. In calendar year 1995 this became a reality and the seven states formed what is now called the Northeast Coalition of States (NCS). The NCS, sharing the vision for a streamlined, cost effective regional EBT system, joined to develop an RFP that was issued in June 1995. Each state assigned individuals to participate in developing an RFP. In Massachusetts, representatives from the DTA, Comptroller, and the State Treasurer's office participated in developing the RFP. State Comptroller, William Kilmartin was appointed by the Governor as the Commonwealth's EBT coordinator-- a position requested of all states by the Federal Government.

In the RFP, the requirements for several states were as nearly as possible combined into one requirement to achieve the benefit of regionalization, namely, improved efficiency of operations, and promotion of standard processes and procedures for obtaining benefits across state borders. This common procurement also takes maximum advantage of economy of scale purchasing that may accrue and facilitates uniformity and compatibility among products and services purchased by states as a result of the procurement. The RFP was issued under the procurement laws of the State of New York. Each State was allowed to provide any state specific data that they wished. In Massachusetts, the procurement is being issued under the State Treasurer's Office procurement rules. In addition, Massachusetts has representatives on both the Technical and Cost Committees.

as well as the Final Selection Committee. It should also be noted that New York because of their size and the volume of transactions they bring to the procurement, have five selection votes compared to one from each of the remaining six states.

The procurement not only represents the joint effort of the NCS states but also reflects the efforts of the Federal EBT Task Force, the Department of Treasury's Financial Management Services (FMS), the Department of Agriculture's Food and Consumer Services (FCS), and the Department of Health and Human Services' Administration for Children and Families (ACF) towards a national EBT system. This RFP effort has the following goals:

- Establishing partnerships among States, to provide the structure for decision making, operations, and management of nationwide EBT.
- Developing the foundation for a uniform EBT operating environment, based on commercial standards.
- Implementing EBT through multistate prototype (s) and State initiatives.
- Enhancing EBT services, by examining new and developing technologies.

Proposals were submitted on September 14, 1995, by Citibank, Fleet, First Security, EDS, and Chemical Bank. Oral presentations were made during the period of October 10-October 18, 1995. Best and Final offers have been requested during November and December. The Selection Committee, of which Bill Kilmartin is a voting member, has recently (December 15, 1995) requested some further clarifications that may require further price adjustments. It is the intent of the Selection Board to award a NCS contract in January 1996. Once this is done, each state will then evaluate the winning proposal and determine if it is cost effective to enter into a contract with the winning NCS vendor. Additionally, the Federal Government will review the cost and the State Implementation Advance Plan Document (IAPD) to determine if it is cost neutral/effective and if the IAPD is planned well. If the procurement continues to be on schedule and the Commonwealth enters into contract, it is possible to have a pilot for Food Stamps and Cash Assistance programs in late 1996 or early 1997.

COST EFFECTIVENESS OF IMPLEMENTING EBT

The Department has identified the costs associated with our current food stamp distribution system and our current cash distribution system on a cost per case month basis. These costs are the costs that will no longer be incurred with the implementation of EBT as the new disbursement method. This will allow the Department to compare the current issuance costs with the replacement issuance costs provided by the successful EBT vendor. Our current issuance costs for food stamps is \$1.955 per case month and \$1.1782 per case month for check issuance. Even under EBT, the preferred issuance method for cash will be Direct Deposit which is the least expensive and programatically, the preferred method of issuing cash benefits.

Based on recent EBT contracts being awarded for similar levels of service and the volume of transaction that will be generated by the NCS coalition it is believed that EBT can be implemented in Massachusetts in a cost effective manner.

